

# Iceland

#PowerofFrozen

FISCAL YEAR 2016 INTERIM RESULTS  
FOR 40 WEEKS ENDED 1 JANUARY '16

4<sup>th</sup> Feb 16



# Agenda

- Key Highlights
- Financial Review
- Outlook
- Full Year Results Presentation
- Q&A

Presenter: Tarsem Dhaliwal (CFO)

First quarter: 12 weeks ending 19 June 2015

Second quarter: 12 weeks ending 11 September 2015

Third quarter: 16 weeks ending 1 January 2016

**Interim results: 40 weeks ending 1 January 2016**

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# Key Highlights

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# Key Highlights

## The Market

- The UK Retail is still challenging. Based on the latest Kantar data (12 weeks ending 3 January '16), food deflation is at **(1.8%)**
- Christmas trading results from competitors show improved performance

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- Turnover down **(1.5%)** year on year in the third quarter with year to date turnover down **(0.8%)**
- Third quarter LFL % of **(3.1%)**, down **(1.1%)** on second quarter performance **(2.0%)**
- Year to date LFL % of **(2.7%)**
- Net **6** stores opened in the UK year to date taking the UK estate to **865**, 11 more than last year. The store estate now includes 11 Food Warehouse Stores.
- Third quarter Group EBITDA of **£47.0m**, **£1.9m** up on last year. Year to date EBITDA of **£106.9m**, **(£1.1m)** down year on year
- Third quarter Group EBITDA % of Turnover was **5.4%**, **0.3%** up on last year. Year to date EBITDA % of Turnover of **5.2%** is in line with last year
- Cash generated from operations in the first three quarters of **£137.5m**, down **(£14.3m)** year on year
- Net Debt at third quarter of **(£723.3m)** and Leverage ratio of **4.85x** (based on a rolling 12 month EBITDA)

# Third quarter results versus Second quarter outlook

- **Current trading:** Like for like sales broadly in line with the FY16 quarter 2 performance
- Net 6 new stores will open in FY16 quarter 3 (1 standard, 3 Food Warehouse and 2 Republic of Ireland stores)
- Power of Frozen and Innovation will continue...
- We enter Christmas 2015 with momentum...
- Launch of new Slimming World products
- Cash on the balance sheet of **£156.8m** at the 11<sup>th</sup> September 2015
- Strengthened our partnership with Brait, which increased its shareholding in the business to 57% through the acquisition of stakes formerly held by Lord Kirkham and the Landmark Group (subject to anti-trust clearance from the Irish and Maltese authorities – expected beginning of November 2015)
- Full Year P&L considerations:
  - Exceptionals
- Full Year Cash Flow considerations:
  - No benefit expected from working capital in FY16
  - Capital expenditure in line with our expectations
  - Year on year Leverage will remain broadly flat

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# Financial Review

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## Third Quarter Sales Performance (£m)

	FY16 Q3	FY15 Q3	Var	Var%
Base Estate (LFL)	835.6	862.3	(26.7)	(3.1%)
FY15 & FY16 New Stores	23.3	8.8	14.5	1.7%
Other Group Co's	5.0	5.6	(0.6)	(0.1%)
<b>Turnover</b>	<b>863.9</b>	<b>876.7</b>	<b>(12.8)</b>	<b>(1.5%)</b>

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# Year to Date Sales Performance (£m)

	FY16	FY15	Var	Var%
Base Estate (LFL)	1,988.9	2,044.7	(55.8)	(2.7%)
FY15 & FY16 New Stores	60.7	21.5	39.2	1.9%
Other Group Co's	12.5	12.4	0.1	0.0%
<b>Turnover</b>	<b>2,062.1</b>	<b>2,078.6</b>	<b>(16.5)</b>	<b>(0.8%)</b>

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# Third Quarter Profit and Loss (£m)

	FY16 Q3	FY15 Q3	Var
Group Turnover	863.9	876.7	(12.8)
Cost of Sales	(800.9)	(817.6)	16.7
<b>Gross Profit</b>	<b>63.0</b>	<b>59.1</b>	<b>3.9</b>
Gross Profit % of Turnover	7.3%	6.7%	0.6%
Admin Expenses	(28.0)	(26.9)	(1.1)
<b>Operating Profit (Pre goodwill &amp; Exceptionals)</b>	<b>35.0</b>	<b>32.2</b>	<b>2.8</b>
Loss on disposal of Fixed Assets	(0.1)	0.0	(0.1)
Net Interest	(15.6)	(10.6)	(5.0)
<b>Profit before tax (Pre goodwill &amp; Exceptionals)</b>	<b>19.3</b>	<b>21.6</b>	<b>(2.3)</b>
Exceptional Cost	0.0	0.0	0.0
Goodwill Amortisation	(23.1)	(23.1)	0.0
Tax	(4.1)	(5.3)	1.2
<b>Loss for the period</b>	<b>(7.9)</b>	<b>(6.8)</b>	<b>(1.1)</b>
<b>EBITDA</b>	<b>47.0</b>	<b>45.1</b>	<b>1.9</b>
EBITDA % of Turnover	5.4%	5.1%	0.3%

- Gross profit margin up 0.6% year on year (£3.9m in cash terms). This was primarily driven by an improvement in underlying gross margin
- Admin Expenses (£1.1m) adverse year on year due to investment in central costs to support the varying initiatives across the business
- Net interest includes underlying charge of (£16.1m) and finance lease interest (£0.1m) partially offset by interest income (£0.6m)
- The year on year increase in net interest (£5.0m) is primarily driven by the FY15 comparable including discount on a Bond buyback
- Tax charge down year on year primarily driven by the fall in profitability
- Resulting EBITDA for the third quarter of £47.0m was 5.4% of Turnover, up 0.3% year on year. The year on year increase in EBITDA % was driven by the increased gross margin partially offset by admin costs

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# Year to Date Profit and Loss (£m)

	FY16	FY15	Var
Group Turnover	2,062.1	2,078.6	(16.5)
Cost of Sales	(1,916.9)	(1,941.1)	24.2
<b>Gross Profit</b>	<b>145.2</b>	<b>137.5</b>	<b>7.7</b>
Gross Profit % of Turnover	7.0%	6.6%	0.4%
Admin Expenses	(68.6)	(63.1)	(5.5)
<b>Operating Profit (Pre goodwill &amp; Exceptionals)</b>	<b>76.6</b>	<b>74.4</b>	<b>2.2</b>
Loss on disposal of Fixed Assets	(0.2)	0.0	(0.2)
Net Interest	(37.4)	(22.3)	(15.1)
<b>Profit before tax (Pre goodwill &amp; Exceptionals)</b>	<b>39.0</b>	<b>52.1</b>	<b>(13.1)</b>
Exceptional Cost	0.0	(59.0)	59.0
Goodwill Amortisation	(57.8)	(57.8)	0.0
Tax	(8.6)	0.3	(8.9)
<b>Loss for the period</b>	<b>(27.4)</b>	<b>(64.4)</b>	<b>37.0</b>
<b>EBITDA</b>	<b>106.9</b>	<b>108.0</b>	<b>(1.1)</b>
EBITDA % of Turnover	5.2%	5.2%	0.0%

- Gross profit margin up 0.4% year on year (£7.7m in cash terms). This was primarily driven by the improvement in underlying gross margin and cost efficiencies, partially offset by marketing spend
- Admin Expenses (£5.5m) adverse year on year due to investment in central costs to support the varying initiatives across the business.
- Net interest includes underlying charge of (£40.4m) and finance lease interest (£0.2m) partially offset by Bond Buy back discount (£1.9m) and interest income (£1.3m)
- The year on year increase in net interest (£15.1m) is driven by the FY15 comparable including a gain on foreign exchange (£7.0m), early redemption discount with respect to the refinancing (£5.0m), and the net impact of Bond buyback discounts
- Tax charge up year on year primarily driven by prior year comparable including a tax credit in relation to the exceptionals
- Year to date EBITDA of £106.9m was 5.2% of Turnover, in line with the prior year. The year on year decrease in cash terms is driven by the lower sales volume, increased marketing spend and timing of admin costs, partially offset by an improvement in underlying margin and cost efficiency savings

# Third Quarter Cash Flow (£m)

	FY16 Q3	FY15 Q3	Var
<b>Group EBITDA</b>	<b>47.0</b>	<b>45.1</b>	<b>1.9</b>
Movement in Working Capital	9.0	10.9	(1.9)
<b>Net Cashflow from operations</b>	<b>56.0</b>	<b>56.0</b>	<b>0.0</b>
Net Capital Expenditure	(9.0)	(8.0)	(1.0)
<b>Free Cashflow</b>	<b>47.0</b>	<b>48.0</b>	<b>(1.0)</b>
Taxation	(6.7)	(1.6)	(5.1)
Net Interest	(21.9)	(6.1)	(15.8)
Refinancing Fees	0.0	(3.4)	3.4
<b>Net Cashflow before Financing</b>	<b>18.4</b>	<b>36.9</b>	<b>(18.5)</b>
Financing	5.3	(28.2)	33.5
<b>Cash Inflow</b>	<b>23.7</b>	<b>8.7</b>	<b>15.0</b>

- Third quarter movement in working capital of £9.0m, down (£1.9m) year on year
- Year on year increase in capital expenditure in the quarter reflects underlying additional spend
- Quarter 3 Taxation includes an underlying payment on account and a tax settlement
- Third quarter Net Interest includes underlying interest payable on Bonds offset by interest income. The year on year increase in Net Interest (£15.8m) is driven by the FY15 comparable including a Bond buyback discount, and the underlying timing of interest paid
- FY15 Quarter 3 Refinancing Fees relate to the Bond refinance
- Quarter 3 Financing includes the proceeds from new finance leases partially offset by lease capital repayments
- FY15 Quarter 3 financing relates to a Bond buyback

<b>Free Cashflow conversion %</b>	<b>100%</b>	<b>106%</b>
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\*Free cashflow conversion %: Free cashflow divided by Group EBITDA

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# Year to Date Cash Flow (£m)

	FY16	FY15	Var
<b>Group EBITDA</b>	<b>106.9</b>	<b>108.0</b>	<b>(1.1)</b>
Movement in Working Capital	30.6	43.8	(13.2)
<b>Net Cashflow from operations</b>	<b>137.5</b>	<b>151.8</b>	<b>(14.3)</b>
Net Capital Expenditure	(48.7)	(18.6)	(30.1)
<b>Free Cashflow</b>	<b>88.8</b>	<b>133.2</b>	<b>(44.4)</b>
Taxation	(17.4)	(14.2)	(3.2)
Net Interest	(46.0)	(26.5)	(19.5)
Refinancing Fees	0.0	(11.0)	11.0
<b>Net Cashflow before Financing</b>	<b>25.4</b>	<b>81.5</b>	<b>(56.1)</b>
Financing	(8.5)	(81.0)	72.5
<b>Cash Inflow</b>	<b>16.9</b>	<b>0.5</b>	<b>16.4</b>

<b>Free Cashflow conversion %</b>	<b>83%</b>	<b>123%</b>
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\*Free cashflow conversion %: Free cashflow divided by Group EBITDA

- Year to date movement in working capital of £30.6m, down (£13.2m) year on year primarily driven by stock build relative to last year
- Year on year increase in net capital expenditure is driven by the commitment to projects specific to FY16, and the timing of new stores and refits
- Year on year increase in Taxation driven by tax settlements
- Net Interest year to date includes underlying interest payable on Bonds offset by discount on Bond Buy Backs and interest income. The year on year increase in net interest (£19.5m) is driven by the timing of interest payments and the net impact of Bond buyback discounts
- FY15 Refinancing Fees include the Bond refinance and loan covenant reset
- Year to date Financing includes Bond buybacks partially offset by the net impact of new finance leases
- FY15 Financing relates to the Bond refinance and Bond buybacks

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## Net Debt (£m)

	FY16 Q3	FY16 Q2	Var
Cash at Bank and in hand	180.5	156.8	23.7
Debt	(896.5)	(895.0)	(1.3)
Finance leases	(7.3)	(2.0)	(5.6)
Net Debt	<b>(723.3)</b>	<b>(740.2)</b>	<b>16.5</b>
Net Leverage	4.85x	5.03x	0.18x

\*Leverage calculations based on rolling 12 month EBITDA

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# FY16 Bond Buy Backs (Company and related parties)

- No Bond Buy Backs completed during FY16 Quarter 3

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# Outlook

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# Outlook

- **Current trading:** Like for like sales improved on FY16 quarter 3 performance
- Net 1 store will close in FY16 quarter 4
- Power of Frozen and Innovation will continue with more focus on Products and Price
- Increased focus on seasonal \ event promotional activity
- **January** : “More ways to eat well” campaign \ Slimming World
- Cash on the balance sheet of **£180.5m** at the 1<sup>st</sup> January 2016
- Full Year P&L considerations:
  - Exceptionals
  - EBITDA in line with our expectations
- Full Year Cash Flow considerations:
  - No benefit expected from working capital in FY16
  - Capital expenditure in line with our expectations
  - Year on year Leverage will remain broadly flat



# Full Year Results Presentation

- **Hosted by:**  
Malcolm Walker, CEO  
Tarsem Dhaliwal, CFO
- To be held in London on 8<sup>th</sup> June 2016

*Invites with relevant details will be sent out via investor website.*

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**Q&A**

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